SGI CANADA Quarterly Report

December 2015

Management's Discussion And Analysis

Corporate Profile

Mission
We're your insurance company, offering protection that benefits you, your family and your community.

Vision
To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

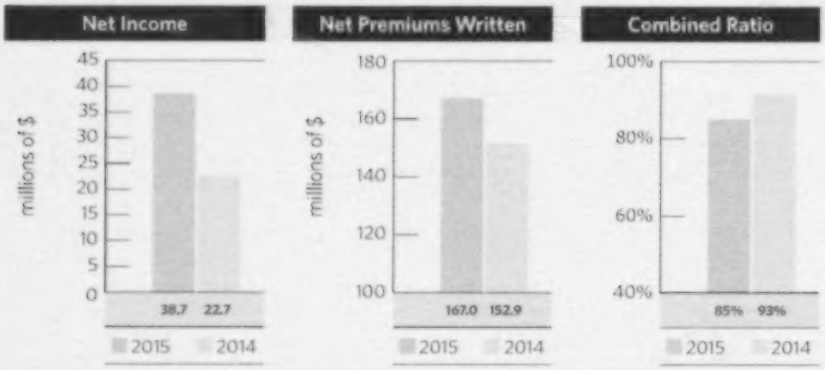
Values

Integrity	Conducting ourselves with honesty, trust and fairness.
Caring	Acting with empathy, courtesy and respect.
Innovation	Implementing creative solutions to achieve our vision.

About SGI CANADA
SGI CANADA is a dynamic and innovative company selling property and casualty insurance products. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba, Alberta and British Columbia, and Coachman Insurance Company in Ontario. The Corporation employs about 1,900 people and its head office is located in Regina, Saskatchewan. Products are sold through a network of independent insurance brokers.

Financial Highlights

For the three months ended December 31[1]



For the 12 months ended December 31[1]

[1] *Includes results from continuing operations.*

Management's Discussion And Analysis

Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd. (SCISL) and Coachman Insurance Company, collectively referred to as SGI CANADA or the Corporation. This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the three- and 12-month periods ended December 31, 2015, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2014. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to management up to February 24, 2016.

Overview

	(thousands of $)					
	three months ended December 31			12 months ended December 31		
	2015	2014	Change	2015	2014	Change
Net premiums written	166,957	152,914	14,043	620,840	549,858	70,982
Net income from continuing operations	38,735	22,657	16,078	61,695	41,640	20,055
Combined ratio	85%	93%	-8%	97%	101%	-4%
Minimum Capital Test				243%	227%	16%

In December 2015, the Corporation was directed to change its fiscal year end from December 31 to March 31 to coincide with that of its ultimate owner, the Government of Saskatchewan. The first complete fiscal period subsequent to this direction will consist of the 15 months ending March 31, 2016. The information that follows focuses on the first 12 months of the current fiscal period compared to the 12-month period ending December 31, 2014.

The Corporation continues to experience strong premium growth, with increases coming from all jurisdictions. The largest growth market was Alberta, which achieved a 24% increase over 2014. Underwriting profitability also increased, due to improved claim experience in Saskatchewan and Ontario. The strong underwriting results, combined with solid investment earnings, contributed to a profitable fourth quarter of 2015.

Investment earnings in the fourth quarter were $17.6 million, due largely to strong equity returns. Investment returns were favourable on a year-to-date basis, with most asset classes providing positive returns.

Capitalization remains adequate to support premium growth, with a Minimum Capital Test (MCT) of 243% at December 31, 2015.

Outlook

Strong underwriting results and investment earnings have positioned SGI CANADA well going into the winter months. The Corporation will be expanding its product lines by offering personal property lines in British Columbia beginning in January 2016, and offering a new usage-based insurance program in Ontario in spring 2016. The Corporation remains focused on underwriting fundamentals, including maintaining adequate pricing and diligent claim management, while providing outstanding service overall.

The investment market volatility experienced during 2015 is expected to persist until macroeconomic factors normalize and is likely to cause continued variability in investment results. Interest rate changes have a relatively small impact on the Corporation as a whole, due to the relatively short duration of the bond portfolio and the offset of any capital gains or losses by the discounting of the claims liabilities. The Corporation continues to maintain a well diversified, high-quality investment portfolio governed by prudent investment management policies and processes.

Revenue

	(thousands of $)					
	three months ended December 31			12 months ended December 31		
	2015	2014	Change	2015	2014	Change
Net premiums earned	152,952	136,114	16,838	583,655	517,264	66,391
Net investment earnings	17,606	13,830	3,776	48,032	48,117	(85)
Other income	–	–	–	–	3,500	(3,500)

Net premiums written by operating segment are noted below

	(thousands of $)					
	three months ended December 31			12 months ended December 31		
	2015	2014	Change	2015	2014	Change
Saskatchewan	120,922	111,429	9,493	464,685	430,357	34,328
Alberta	26,506	23,842	2,664	105,505	85,407	20,098
Ontario	16,688	15,748	940	64,550	58,274	6,276
Manitoba and BC	6,339	5,219	1,120	22,186	18,737	3,449
Gross premiums written	170,455	156,238	14,217	656,926	592,775	64,151
Premiums ceded to reinsurers	(3,498)	(3,324)	(174)	(36,086)	(42,917)	6,831
Change in unearned premiums	(14,005)	(16,800)	2,795	(37,185)	(32,594)	(4,591)
Net premiums earned	152,952	136,114	16,838	583,655	517,264	66,391

Gross premiums written in Saskatchewan increased 8.0% over the 12-month period, with personal lines contributing the majority of the increase.

Alberta operations experienced growth in premiums written of 23.5% for the 12-month period. All lines of business experienced year-over-year growth, with personal lines and personal auto contributing the majority of the growth with $14.5 million in additional premium written.

Ontario gross premiums written increased 10.8% over the 12-month period. The increase is largely the result of continued growth in the number of auto policies written. Since the Government of Ontario's mandated 12.5% auto rate decrease, effective July 1, 2014, auto policies in force have increased 25.8%.

Manitoba gross premiums written increased 14.5% over the 12-month period. The increase is the result of growth in the number of personal and commercial property policies written. The Corporation started selling commercial property products in British Columbia in July 2015, which contributed $732,000 of premiums year-to-date.

Investment earnings

Investment earnings in the fourth quarter were $3.8 million higher than the same period in 2014 due to strong equity returns, with positive global equity returns assisted by a declining Canadian dollar. Fixed income returns were lower due to widening credit spreads generating some capital losses as well as holding lower yielding securities compared to the 2014 period.

Year-to-date investment earnings were comparable to 2014. Lower returns from fixed income investments were offset by higher returns from equities. The year-to-date market value rate of return at December 31, 2015, was 5.0% compared to 5.6% in 2014.

Expenses

	(thousands of $ - except percentages)					
	three months ended December 31			12 months ended December 31		
	2015	2014	Change	2015	2014	Change
Net claims incurred	71,002	74,332	(3,330)	345,286	322,436	22,850
Other expenses	59,035	52,247	6,788	221,383	200,369	21,014
	130,037	126,579	3,458	566,669	522,805	43,864
Combined ratio	85.0%	93.0%	(8.0%)	97.1%	101.1%	(4.0%)
Loss ratio	46.4%	54.6%	(8.2%)	59.2%	62.3%	(3.1%)

Expenses are comprised of claims incurred and other expenses, which includes commissions, administrative expenses and premium taxes.

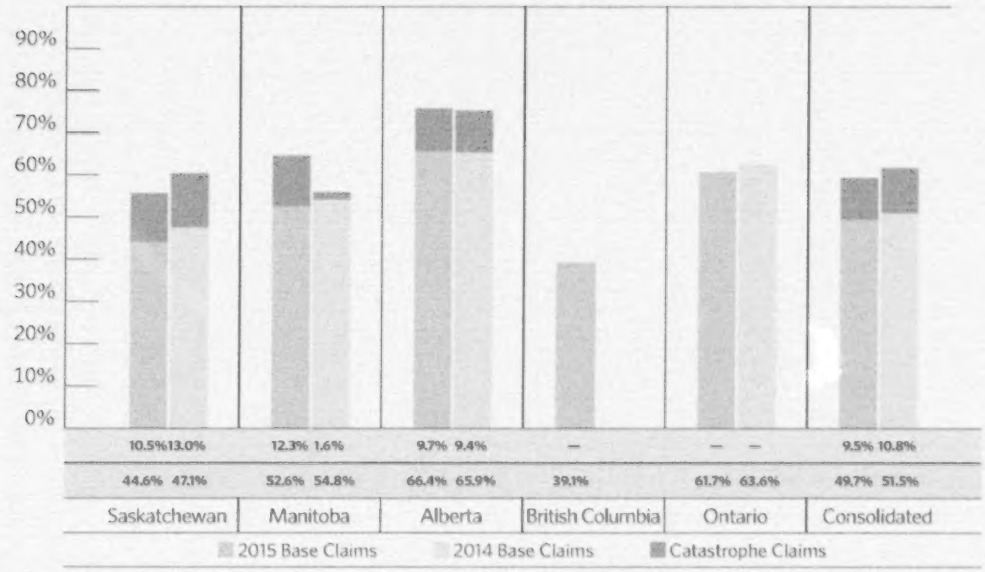
Claims incurred

Consolidated claims incurred totalled $345.3 million, an increase of $22.9 million, or 7.1%, from 2014. The consolidated loss ratio decreased to 59.2%, compared to 62.3% in 2014.

The following chart summarizes loss ratios by jurisdiction for the 12 months of 2015:

Loss Ratios

12 months ended December 31



Saskatchewan's loss ratio of 55.1% declined from the prior year loss ratio of 60.1%. There were improved results across all lines of business, driven by a decrease in the number of claims combined with premium growth. Catastrophes resulted in $44.3 million in claims, compared to $49.5 million over the same period in 2014. Catastrophe claims are generally caused by storm activity; however, 2015 includes $8.8 million as a result of forest fires as well.

Alberta's loss ratio increased to 76.1 % from 75.3% in 2014, due to an increase in storm claims. Storm activity resulted in $8.6 million in claims, compared to $6.4 million incurred during the same period in 2014.

Ontario's loss ratio decreased to 61.7% in 2015 from 63.6% in 2014, due to better than expected development on prior year auto claims, which is being driven by the auto reforms in Ontario.

Manitoba's loss ratio increased to 64.9% from 56.4% in 2014, due to an increase in storm claims. Storm activity resulted in $2.2 million in claims, compared to $250,000 incurred during the same period in 2014.

Other expenses

For the 12-months ended December 2015, other expenses increased by $21.0 million or 10.5% from 2014. This was due largely to higher commissions and premium taxes, which is consistent with the premium growth.

Statement of Financial Position Review

	(thousands of $)		
	December 31 2015	December 31 2014	Change
Total assets	**1,233,173**	**1,175,332**	**57,841**
Key asset account changes:			
Cash and cash equivalents	3,178	18,680	(15,502)
Investments	894,353	820,181	74,172
Accounts receivable	183,826	163,911	19,915
Unpaid claims recoverable from reinsurers	36,223	55,485	(19,262)

The decrease in cash and cash equivalents is discussed in the Cash Flow and Liquidity section that follows. The carrying value of investments increased by $74.2 million, reflecting additional purchases of long-term securities made from positive cash flows from operations and decreases in cash and cash equivalents. The increase in accounts receivable is the result of continued premium growth across all provinces and an increase in the percentage of policies using payment plans offered by SGI CANADA. Unpaid claims recoverable from reinsurers decreased as amounts were received from reinsurers related to recoveries on prior year storms, most notably the 2014 loss year.

	(thousands of $)		
	December 31 2015	December 31 2014	Change
Total liabilities	**892,599**	**870,819**	**21,780**
Key liability account changes:			
Accounts payable and accrued liabilities	33,606	38,594	(4,988)
Dividends payable	6,250	10,622	(4,372)
Premium taxes payable	26,460	24,080	2,380
Amounts due to reinsurers	3,551	7,583	(4,032)
Unearned premiums	343,487	310,324	33,163
Provision for unpaid claims	453,287	451,584	1,703

The decrease in accounts payable and accrued liabilities is largely the result of timing of various expenditures accrued at year end. The decrease in dividends payable is the result of accruing a lower fourth quarter dividend than in 2014. The increase in premium taxes payable and unearned premiums is the result of the increase in premium volume in 2015. Amounts due to reinsurers has declined because of lower reinstatement premiums on the Corporation's catastrophe coverage, as the storms experienced in 2015 were smaller than the prior year. The provision for unpaid claims remained consistent with the prior year, with the lack of increase due largely to favourable prior year claims development in 2015.

	(thousands of $)		
	December 31 2015	December 31 2014	Change
Total equity	**340,574**	**304,513**	**36,061**
Key equity account changes:			
Retained earnings	260,574	224,513	36,061

The increase in retained earnings is attributable to $61.7 million consolidated net income and other comprehensive loss of $634,000, offset by dividends declared of $25.0 million. Other comprehensive loss represents actuarial changes associated with the Corporation's defined benefit pension and service recognition plans.

Cash Flow and Liquidity

	(thousands of $)		
	12 months ended December 31		
	2015	2014	Change
Operating activities	68,685	65,908	2,777
Investing activities	(54,815)	(56,649)	1,834
Financing activities	(29,372)	(33,187)	3,815
Net cash flow	(15,502)	(23,928)	8,426

On a year-to-date basis, positive operating cash flows and cash and cash equivalents were used to purchase additional long-term investments and fund the $29.4 million of dividend payments.

Capital

As at December 31	2015	2014
Minimum Capital Test	243%	227%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor capital adequacy. At December 31, 2015, the Corporation's MCT was 243% (December 31, 2014 – 227%), which is in excess of the 150% minimum regulatory target. For further information on capital management, refer to note 8 of the notes to the consolidated financial statements for the quarter.

Quarterly Consolidated Financial Highlights

The following table highlights quarter-over-quarter results for SGI CANADA[1]:

	(thousands of $)							
	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net premiums written	166,957	173,563	174,491	105,829	152,914	149,717	150,962	96,265
Net premiums earned	152,952	148,134	144,412	138,157	136,114	133,377	125,530	122,243
Net claims incurred	71,002	117,160	84,778	72,346	74,332	103,502	83,614	60,988
Net income (loss)	38,735	(28,588)	8,224	43,324	22,657	(10,796)	1,188	28,591
Cash flow from (used in) operations	33,035	25,878	28,152	(18,380)	31,477	29,524	15,101	(4,157)
Investments	894,353	863,145	824,655	833,161	820,181	800,245	771,383	752,809
Provision for unpaid claims	453,287	479,164	442,485	442,727	451,584	461,233	438,040	395,802
Minimum Capital Test	243%	224%	258%	252%	227%	219%	240%	252%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- The first quarter generally experiences lower claims incurred compared to the rest of the year. Claims incurred can be high in the second and third quarters as a result of the summer storm season.
- With the exception of the first quarter, the Corporation generates positive cash flow from operations. Cash is typically low in the first quarter as the Corporation pays annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months; excess cash generated is directed to investments.

Risk Management

Understanding and managing risk is fundamental to the Corporation's success. Risks that the Corporation manages in order to reduce the impact on operations and profitability include competition, scale, strategy, privacy breaches, catastrophic claim losses, transfer and acquisition of expertise, employee engagement and productivity, product design and pricing, and information savvy. These risks are described in detail in the Corporation's 2014 Annual Report.

Accounting Matters

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2014 Annual Report.

Related party transactions

There have been no material changes to the Corporation's related party arrangements during the quarter. For further details on the Corporation's related party arrangements, refer to the 2014 Annual Report.

Off balance sheet arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. There have been no new off balance sheet arrangements during the quarter. For further details on off balance sheet arrangements, refer to the 2014 Annual Report.

[1] Includes results from continuing operations.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

In June 2013, the International Accounting Standards Board (IASB) published a revised exposure draft (2013 ED) on accounting for insurance contracts which builds on consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on financial reporting of insurers. A final standard is expected in 2016 with implementation not expected before 2019. The Corporation is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers who meet certain criteria will be permitted to exclude from net income, and recognize in other comprehensive income, the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Office of the Superintendent of Financial Institutions (OSFI) has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Proposed amendments to IFRS 4). Proposed changes would allow reporting entities, where the liabilities are predominately arising from insurance contracts, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Corporation is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

Income Taxes

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception that excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*; therefore, the Corporation does not expect this standard to significantly impact the consolidated financial statements.

Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

Presentation of Financial Statements

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate, and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the consolidated financial statements.

Annual Improvements Cycles

In 2014, the IASB issued Annual Improvements Cycle 2012-2014, which includes minor amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the consolidated financial statements.

Caution Regarding Forward-Looking Statements

Forward-looking statements include statements regarding SEI CANADA's objectives and strategies, and its ability to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are relevant in the circumstances. SEI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document.

Condensed Consolidated Statement of Financial Position

	(Thousands of $)	
	December 31 2012 (unaudited)	December 31 2010 (audited)
Assets		
Cash and cash equivalents	$ 5,178	$ 14,480
Accounts receivable	145,834	145,811
Investments under security lending program (note 5)	202,380	85,673
Investments (note 5)	431,373	134,708
Unpaid claims recoverable from reinsurers	34,559	32,482
Reinsurers' share of unearned premiums	7,158	11,148
Deferred policy acquisition costs	80,242	73,344
Property and equipment	24,782	25,813
Deferred income tax asset	5,111	2,747
	$ 1,038,178	$ 1,172,555
Liabilities		
Accounts payable and accrued liabilities	$ 55,434	$ 38,234
Dividend payable	4,250	10,455
Premium taxes payable	24,440	24,080
Amounts due to reinsurers	3,321	7,245
Unearned reinsurance commissions	2,357	6,747
Unearned premiums	363,487	310,324
Accrued pension liability	23,080	23,342
Provision for unpaid claims	423,287	421,244
Deferred income tax liability	321	315
	882,398	871,813
Equity		
Equity advances	80,000	80,000
Retained earnings	267,274	234,213
Province of Sudbury-Nemaiah's equity	360,274	314,213
	$ 1,038,178	$ 1,172,555

Contingencies (note 13)

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Operations

	(Thousands of $)			
	Three months ended		Twelve months ended	
For the periods ended December 31	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (audited)
Gross premiums written	$ 170,469	$ 136,238	$ 656,926	$ 590,770
Premiums ceded to reinsurers	(5,498)	(5,504)	(36,186)	(40,970)
Net premiums written	166,767	126,734	620,840	549,858
Change in net unearned premiums	(14,693)	(10,860)	(97,183)	(86,998)
Net premiums earned	**152,074**	**116,114**	**523,657**	**462,860**
Net claims incurred	75,692	76,350	342,388	355,438
Commissions	33,238	28,035	126,379	113,368
Administrative expenses	18,958	17,360	68,512	66,757
Premium taxes	2,359	2,331	10,892	10,176
Total claims and expenses	**130,247**	**124,076**	**548,171**	**545,739**
Underwriting income (loss)	**22,827**	**(7,962)**	**(24,514)**	**(82,879)**
Net investment earnings (note 10)	17,978	13,839	48,370	48,117
Other income (note 10)	–	–	–	9,200
Income before income taxes	**40,805**	**5,877**	**23,856**	**(25,562)**
Income tax expense	1,786	718	3,323	4,936
Net income from continuing operations	**39,019**	**5,159**	**20,533**	**(30,498)**
Net loss from discontinued operations – net of tax (note 9)	–	(5,774)	–	(969)
Net income	**39,019**	**(615)**	**20,533**	**(31,467)**
Other comprehensive income (loss)	(760)	1,220	(3,134)	109
Comprehensive income	**$ 38,259**	**$ 605**	**$ 17,399**	**$ (31,358)**
Attributable to:				
The Province of Saskatchewan	38,979	35,709	93,801	91,198
Non-controlling interest from discontinued operations	–	–	–	(4,168)
	$ 38,979	$ 35,709	$ 93,801	$ 91,198

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the periods ended December 31	[illegible]			
	[illegible]			
	[illegible]		[illegible]	
Equity, attributes				
Balance, end of period	[illegible]	[illegible]	[illegible]	[illegible]
Retained earnings				
Balance, beginning of period	[illegible]	[illegible]	[illegible]	[illegible]
Net income from continuing operations		[illegible]		[illegible]
Net loss from discontinued operations		-		[illegible]
Other comprehensive income (loss)		[illegible]		[illegible]
Dividends		[illegible]		[illegible]
Balance, end of period	[illegible]	[illegible]	[illegible]	[illegible]
Total Provision of Contributions's equity	[illegible]	[illegible]	[illegible]	[illegible]
Non-controlling interest				
Balance, beginning of period	[illegible]	-	[illegible]	[illegible]
Other comprehensive loss		-		[illegible]
Sale of CPR		-		[illegible]
Balance, end of period	[illegible]	-	[illegible]	-
Total Equity	[illegible]	[illegible]	[illegible]	[illegible]

The accompanying notes are an integral part of these consolidated financial statements.

Condensed Consolidated Statement of Cash Flows

For the periods ended December 31	(thousands of $) twelve months ended 2015 (unaudited)	2014 (audited)
Cash provided by (used for):		
Operating activities		
Net income	$ 61,695	$ 40,651
Continuing operations		
Non-cash items:		
Bond amortization	3,522	3,366
Depreciation	6,491	6,192
Net realized gains on sale of investments	(42,239)	(22,342)
Net unrealized losses on change in market value of investments	17,900	927
Actuarial gain (loss) on employee benefit plans	(634)	109
Deferred income taxes	(286)	(255)
Change in non-cash operating items (note 9)	22,236	43,297
	68,685	71,945
Discontinued operations	–	(6,037)
	68,685	65,908
Investing activities		
Continuing operations		
Purchases of investments	(994,837)	(913,196)
Proceeds on sale of investments	941,482	843,635
Proceeds on sale of discontinued operations (note 4)	–	8,709
Purchases of property and equipment, net of proceeds from disposals	(1,460)	(3,192)
	(54,815)	(64,044)
Discontinued operations	–	7,395
	(54,815)	(56,649)
Financing activities		
Continuing operations		
Dividends received	–	51
Dividends paid	(29,372)	(30,942)
	(29,372)	(30,891)
Discontinued operations	–	(2,296)
	(29,372)	(33,187)
Decrease in cash and cash equivalents	**(15,502)**	(23,928)
Cash and cash equivalents, beginning of period	18,680	42,608
Cash and cash equivalents, end of period	**$ 3,178**	$ 18,680
Supplemental cash flow information:		
Interest received	$ 11,762	$ 12,668
Dividends received	$ 1,648	$ 2,269
Income taxes paid	$ 6,248	$ 3,277

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (unaudited)

December 31, 2015

1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, is incorporated, registered and conducts a property and casualty insurance business in the Province of Saskatchewan, and in other provinces of Canada through its wholly-owned subsidiary SGI CANADA Insurance Services Ltd. (SCISL). SCISL operates directly in British Columbia, Alberta, Manitoba and in Ontario through its wholly-owned subsidiary Coachman Insurance Company (Coachman). The address of the Corporation's registered head office is 2260-11th Avenue, Regina, SK, Canada.

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta and Ontario, and represent approximately 16.2% (December 31, 2014 – 15.9%) of the Corporation's consolidated gross premiums written.

SGI was established as a branch of the public service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes; however, SCISL and Coachman are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC. CIC is ultimately owned by the Government of Saskatchewan.

2. Basis of Preparation

The unaudited interim consolidated financial statements for the three and twelve-month periods ended December 31, 2015, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, *Interim Financial Reporting*, and interpretations of the International Financial Reporting Interpretations Committee.

In December 2015, the Corporation was directed to change its fiscal year end from December 31 to March 31 to coincide with that of its ultimate owner, the Government of Saskatchewan. The first complete fiscal period subsequent to this direction will consist of the 15 months ending March 31, 2016.

These unaudited interim consolidated financial statements do not include all of the note disclosures normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended December 31, 2014. Full disclosures will be included in the consolidated financial statements for the 15 month period ending March 31, 2016.

Basis of measurement

The unaudited interim consolidated financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification

The Consolidated Statement of Financial Position has been prepared on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet (non-current) presented in the notes.

Functional and presentation currency

These unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Use of estimates and judgment

The preparation of the unaudited interim consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims, the valuation of accounts receivable and the valuation of investments classified as Level 3 (note 5).

3. Significant Accounting Policies

Basis of consolidation

The unaudited interim consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SCISL and Coachman. All inter-company accounts and transactions have been eliminated on consolidation. The financial accounting records of the subsidiaries are prepared for a reporting period ending December 31 rather than the March 31 year end that the Corporation uses. For the purpose of these financial statements they have been prepared for the same reporting period as the Corporation and are prepared using consistent accounting policies.

Discontinued operations

A disposal group is classified as assets held for sale when the Corporation expects the carrying amount to be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met when the disposal group is available for sale in its present condition, and the sale is highly probable and expected to occur within one year from the date of reclassification. Disposal groups classified as held for sale are measured at the lower of their previous carrying amounts, prior to being reclassified, and fair value less costs to sell. Assets and liabilities directly associated with the disposal group are presented separately from assets and liabilities related to continuing operations. Discontinued operations are presented separately from continuing operations in the Consolidated Statement of Operations, Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income (OCI); however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to net income. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Consolidated Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation. There are no financial assets and financial liabilities reported as offset in these consolidated financial statements.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Corporation defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian and U.S. common shares and pooled equity funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Corporation does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value for short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Corporation's investment in the pooled mortgage and real estate funds. The fair value of these investments is based on the Corporation's share of the net asset value of the respective fund, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the pooled mortgage fund is determined based on market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate pooled fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures, and are based primarily on the discounted cash flow and income capitalization methods.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and amounts due to reinsurers approximate their carrying values due to their short-term nature.

Investments

The Corporation records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are de-recognized when the rights to receive cash flows from them have expired, or when the Corporation has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the Consolidated Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Consolidated Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold, and unrealized gains and losses based on changes in market value of the investments held at the period-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the period-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current period. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current period.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Consolidated Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred policy acquisition costs to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred policy acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred policy acquisition costs, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Corporation uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities and their share of unearned premiums are recorded as reinsurance assets on a gross basis in the Consolidated Statement of Financial Position. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively. Insurance ceded does not relieve the Corporation of its primary obligation to policyholders.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Income taxes are comprised of both current and deferred taxes. Income taxes are recognized in the Consolidated Statement of Operations.

Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized, probable being defined as more likely than not.

Employees' future benefits

The Corporation provides a defined contribution pension plan, a defined benefit pension plan and defined benefit service recognition plans that provide retirement benefits for employees.

For the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

The Corporation's defined benefit pension plan is available to certain of its employees and has been closed to new membership since 1980. The plan provides a full pension at retirement calculated as 2% of a member's average earnings during the five years of highest earnings, multiplied by the total number of years of service to a maximum of 35 years. The plan may be indexed at the discretion of the Board of Directors. The plan is pre-funded by payments from employee and employer contributions which are made to a separately administered fund and are determined by periodic actuarial calculations taking into account the recommendations of a qualified actuary.

Responsibility for governance of the plan lies with the Corporation. The Corporation has a pension committee to assist in the management of the plan and has also appointed experienced, independent professional experts such as investment managers, an actuary and a custodian.

Plan assets consist primarily of fixed income and equity pooled funds and are carried at fair value. Plan assets are not available to creditors of the Corporation nor can they be paid directly to the Corporation.

For the defined benefit plan:

(i) Net interest on the accrued pension liability is recognized in net income.

(ii) Pension obligations are determined by an independent actuary using the projected unit credit method prorated on service, and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

(iii) The discount rate used to determine the accrued benefit obligation and the expected return on plan assets was determined by reference to market interest rates at the measurement date of high-quality debt instruments that are denominated in the currency in which the benefits will be paid, with cash flows that match the timing and amount of expected benefit payments.

(iv) Past service costs are expensed immediately.

(v) Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The accrued benefit asset (liability) is the fair value of plan assets out of which the obligation is to be settled directly, less the present value of the defined benefit obligation. It is restricted to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

By design, the plan exposes the Corporation to typical risks faced by defined benefit pension plans such as investment performance, changes to the discount rate used to value the obligation, longevity of plan members and future price inflation. Pension risk is managed by established policies, regular monitoring, re-evaluation and potential adjustments of policies as future events unfold.

The Corporation provides defined benefit service recognition plans for certain management and in-scope (union) employees for the purpose of providing retirement benefits. Employees in the plans are eligible for benefits at the earlier of age plus service equal to or greater than 75, or age 50. Upon retirement, employees meeting eligibility criteria receive a lump sum payment of five days for management and three days for in-scope (union) employees for each year of continuous service, less ineligible time and ineligible partial service time. A participant who dies while a member of either plan is deemed to satisfy the eligibility requirements. The member's beneficiary or estate will receive the same benefit payment based on the calculation. Effective December 31, 2011, the defined benefit service recognition plan for unionized employees was frozen for current employees and closed to new employees. Effective December 31, 2011, the defined benefit service recognition plan for management employees was closed to new employees, and current employees were provided the option to elect to remain in the plan or to receive an annual payout, commencing in 2012.

The accrued benefit obligation of the service recognition plans is funded by the Corporation as eligible employees terminate employment. The cost of the plans is determined using the projected unit credit method prorated on service. Expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

By design, the service recognition plans expose the Corporation to risks such as changes to the discount rate used to value the obligation, expected salary increases and duration of employee service. These risks are managed by established policies, regular monitoring, re-evaluation and potential adjustments of policies as future events unfold.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the case of land, building and building components, fair value upon transition to IFRS has been used as the deemed cost.

The Corporation has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the assets' carrying value when it is probable that future economic benefits associated with the item will flow to the Corporation, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Consolidated Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and the residual values of the assets are reviewed at each reporting date.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-30 years
Computer software, hardware and other equipment	3-5 years

Building components consist of heating and cooling systems, elevators, roofs and parking lots. Land is not subject to amortization and is carried at cost.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and rewards of ownership are classified as operating leases. The payments are expensed as they are incurred.

Provisions and contingent liabilities

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claim adjudication, the Corporation settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Corporation does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Consolidated Statement of Operations at the date of the purchase and the related claim liabilities are de-recognized. However, the Corporation remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Comprehensive income

Comprehensive income consists of net income and other OCI. OCI includes net actuarial gains (losses) on the employee defined benefit pension plan and service recognition plans. These items of OCI are not reclassified subsequently to net income.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

IFRS 4 – Insurance Contracts

In June 2013, the IASB published a revised exposure draft (2013 ED) on accounting for insurance contracts which builds on consultations undertaken in 2007 and 2010. The 2013 ED is the result of deliberations at the IASB using comments received from constituents. The ED continues to propose a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. Proposals represent a comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on financial reporting of insurers. A final standard is expected in 2016 with implementation not expected before 2019. The Corporation is in the process of assessing the impact of the new proposed standard.

In July 2015, the IASB amended the existing IFRS 4 to mitigate accounting mismatches from the adoption of IFRS 9, *Financial Instruments*, before the new insurance contracts standard is issued. Insurers who meet certain criteria will be permitted to exclude from net income and recognize in other comprehensive income the difference between the amounts that would be recognized in net income in accordance with IFRS 9 and the amounts recognized in net income in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 7 – Financial Instruments: Disclosures

IFRS 7 was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39, *Financial Instruments: Recognition and Measurement* to IFRS 9, *Financial Instruments*. The amendments are effective on adoption of IFRS 9. The amendments issued are permitted to be early adopted where IFRS 9 is also early adopted. The Office of the Superintendent of Financial Institutions (OSFI) has indicated that it will not allow early adoption of IFRS 9 for federally regulated financial institutions. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9, *Financial Instruments*, as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

The new standard requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Consolidated Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Consolidated Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Consolidated Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

This standard is effective for annual periods beginning on or after January 1, 2018. While early adoption is permitted under the standard, OSFI has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

The IASB has proposed temporary deferral and overlay approaches for insurers, as detailed in their December 2015 Exposure Draft Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Proposed amendments to IFRS 4). Proposed changes would allow reporting entities, where the liabilities are predominately arising from insurance contracts, to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest.

The Corporation is in the process of assessing the impact of the new standard and changes proposed in the Exposure Draft.

IAS 12 – Income Taxes

In January 2016, IAS 12 was amended to clarify guidance in the standard related to the measurement of deductible temporary differences for unrealized losses on debt instruments measured at fair value, the estimation of probable future taxable income, and the assessment of deferred tax assets in combination with other deferred tax assets. These amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact this amendment will have on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and is intended to replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and U.S. generally accepted accounting principles. This standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. IFRS 15 contains a scope exception which excludes insurance contracts within the scope of IFRS 4 *Insurance Contracts*; therefore, this standard will have a limited impact on the Corporation.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and is intended to replace IAS 17 *Leases*, and related IFRICs. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard is effective for annual periods beginning on or after January 1, 2019. The Corporation is evaluating the impact this standard will have on the consolidated financial statements.

IAS 1 – Presentation of Financial Statements

In December 2014, IAS 1 was amended to clarify that materiality applies to all parts of the financial statements, that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate, and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The amendment is effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the consolidated financial statements.

Annual Improvements Cycles

In 2014, the IASB issued Annual Improvements Cycle 2012-2014, which include minor amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are all effective for annual periods beginning on or after January 1, 2016. The Corporation does not expect these amendments to significantly impact the consolidated financial statements.

4. Discontinued Operations

During the first quarter of 2014, the Corporation sold the shares of its 75%-owned subsidiary, Insurance Company of Prince Edward Island (ICPEI), for a purchase price equal to ICPEI's book value as at the transaction closing date, June 30, 2014. Following receipt of regulatory approval, the sale closed on June 30, 2014, for total proceeds of $8,709,000 representing the book value as at June 30, 2014. Other income of $3,500,000 relates to the perpetual lease of SGI CANADA's information system, which was part of the overall transaction to sell ICPEI.

As part of the sale agreement, 54 months after the closing date, the purchaser shall deliver to the Corporation a report of the ultimate losses prior to June 30, 2014, certified by the purchaser's appointed actuary. If the amount of the final closing date ultimate loss is greater than the initial closing date ultimate loss, a deficiency, the Corporation shall pay to the purchaser an amount equal to the lesser of $1,500,000 or 75% of the deficiency. Conversely, if the amount of the final closing date ultimate loss is less than the initial closing date ultimate loss, a surplus, the purchaser shall pay to the Corporation an amount equal to the lesser of $1,500,000 or 75% of the surplus. The purchaser is required to provide the Corporation with an estimate of the amount annually. As at December 31, 2015, a surplus of $1,370,000 (December 31, 2014 – $244,000) was estimated, which has not been recorded in these Consolidated Financial Statements.

The ICPEI operations represented a separate segment of business for the Corporation. As a result of the sale, these operations have been treated as discontinued operations and include the results of ICPEI to June 30, 2014, the transaction close date. A single amount is shown on the Consolidated Statement of Operations comprising the post-tax result of the discontinued operations. In the Consolidated Statement of Cash Flows, the cash provided (utilized) by the activities of ICPEI has been separated from that of the rest of the Corporation.

Loss from the discontinued operation is presented below:

	Thousands of $	
	six months ended June 30 (audited)	
	2010	
Gross premiums written	$	13,440
Premiums ceded to reinsurers		(430)
Net premiums written		13,010
Change in net unearned premiums		(911)
Net premiums earned		**12,099**
Net claims incurred		10,449
Commissions		2,048
Administrative expenses		1,862
Premium taxes		480
Facility Association participation		66
Total claims and expenses		**14,114**
Underwriting loss		**(2,012)**
Investment earnings		761
Loss before income taxes		**(2,250)**
Income tax recovery		(512)
Loss from discontinued operations		**(1,738)**
Administrative expenses from SGI CANADA		714
Net loss from discontinued operations	$	**(1,024)**

ICPSI's administrative expenses include $719,000 of expenses allocated from its parent, SGI CANADA. As the related expenses are expected to continue after completion of the sale transaction, these expenses are added back to net income from discontinued operations and shown as an expense in continued operations.

5. Investments

The carrying and fair values of the Corporation's investments are as follows:

	(Thousands of $)	
	December 31, 2016 (unaudited)	December 31, 2016 (audited)
Short-term investments	$ 129,311	$ 105,862
Bonds and debentures	550,978	551,374
Canadian common shares	86,717	67,318
U.S. common shares	–	56,702
Pooled funds		
Canadian equity	116,238	116,613
Global equity	113,879	–
Global small-cap equity	51,863	–
U.S. equity	–	55,807
Non-North American equity	–	33,377
Mortgage	115,215	87,998
Real estate	10,181	–
	403,379	736,708
Investments under securities lending program		
Bonds and debentures	155,688	81,230
Canadian common shares	6,591	6,798
U.S. common shares	–	5,188
	312,480	93,679
Total investments	$ 896,323	$ 830,181

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. When securities are loaned, the Corporation is exposed to counterparty risk, which is the risk that the borrower will not return the loaned securities or, if the collateral is liquidated, it may be for less than the value of the loan. The Corporation mitigates this risk through non-cash collateral and a guarantee provided by its custodian. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2015, the Corporation held collateral of $215,219,000 (December 31, 2016 - $98,104,000) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized in a levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

	Dispensary of Q			
	December 31, 2019 (unaudited)			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 1,09,311	$ –	$ 1,09,311
Bonds and debentures	–	459,067	–	459,067
Canadian common shares	49,038	–	–	49,038
Pooled funds				
Canadian equity	19,438	–	–	19,438
Global equity	113,879	–	–	113,879
Global small-cap equity	21,863	–	–	21,863
Mortgage	–	–	112,912	112,912
Real estate	–	–	19,181	19,181
	$ 204,218	$ 1,67,378	$ 112,093	$ 884,791

	Dispensary of Q			
	December 31, 2019 (audited)			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 1,09,660	$ –	$ 1,09,660
Bonds and debentures	–	452,996	–	452,996
Canadian common shares	37,266	–	–	37,266
U.S. common shares	38,897	–	–	38,897
Pooled funds				
Canadian equity	19,613	–	–	19,613
U.S. equity	22,807	–	–	22,807
Non-North American equity	21,277	–	–	21,277
Mortgage	–	–	37,998	37,998
	$ 209,812	$ 1,62,371	$ 37,998	$ 809,181

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	Dispensary of Q			
	Nine months ended December 31		Twelve months ended December 31	
	2019 (unaudited)	2019 (unaudited)	2019 (unaudited)	2019 (audited)
Balance beginning of the period	$ 110,178	$ 99,808	$ 37,998	$ –
Additions during the period				
Mortgage-pooled fund	6,600	9,800	14,038	99,798
Real estate fund	6,638	–	9,800	–
Net unrealized gains (losses)	(2,708)	(1,660)	758	2,560
	$ 120,608	$ 37,998	$ 122,093	$ 37,998

Investment in the mortgage pooled fund and real estate pooled fund are valued using the Corporation's share of the net asset value of the respective fund as at December 31, 2015 and December 31, 2014.

During the first quarter of 2014, the Corporation transferred the mortgage pooled fund from Level 2 to Level 3 to be consistent with the investment manager's classifications. There have been no other transfers between levels.

6. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Net realized gains on sale of investments	$ 2,009	$ 11,950	$ 42,239	$ 22,342
Pooled fund distributions	8,282	9,963	9,129	10,580
Interest	1,866	2,472	8,259	9,390
Premium financing	1,732	1,539	6,575	5,847
Dividends	338	610	1,587	2,292
Net unrealized gains (losses) on change in market value of investments	3,923	(12,323)	(17,900)	(927)
Total investment earnings	18,150	14,211	49,889	49,524
Investment expenses	(544)	(381)	(1,857)	(1,407)
Net investment earnings	$ 17,606	$ 13,830	$ 48,032	$ 48,117

Details of the net unrealized gains (losses) on change in market value of investments are as follows:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Bonds and debentures	$ (99)	$ 557	$ (1,576)	$ 954
Canadian common shares	(687)	(393)	(5,845)	2,382
U.S. common shares	–	2,636	(14,305)	3,522
Pooled funds:				
Canadian equity	(1,056)	(996)	(2,500)	721
Global equity	7,720	–	7,909	–
Global small cap equity	803	–	408	–
U.S. equity	–	(1,881)	(3,850)	94
Non-North American equity	–	(10,601)	1,103	(10,842)
Mortgage	(2,930)	(1,645)	484	2,242
Real estate	172	–	272	–
	$ 3,923	$ (12,323)	$ (17,900)	$ (927)

7. Insurance and Financial Risk Management

The Corporation has established an enterprise risk management policy. The Board of Directors approved this policy, and management is responsible for ensuring it is properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting from management.

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance risk

Underwriting risk

The Corporation manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by region and line of business is summarized below by reference to gross premiums written:

	(thousands of $)				
twelve months ended December 31, 2015 (unaudited)	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 158,011	$ 217,191	$ 52,544	$ 36,939	$ 464,685
Manitoba	–	11,905	6,251	3,297	21,453
Alberta	59,065	30,470	8,518	7,453	105,506
British Columbia	–	–	468	264	732
Ontario	47,338	6,737	6,624	3,851	64,550
Total	$ 264,414	$ 266,303	$ 74,405	$ 51,804	$ 656,926

	(thousands of $)				
twelve months ended December 31, 2014 (audited)	Automobile	Personal Property	Commercial Property	Liability	Total
Saskatchewan	$ 154,207	$ 189,262	$ 49,224	$ 37,285	$ 429,978
Manitoba	–	10,526	5,126	3,085	18,737
Alberta	50,986	21,584	6,441	6,397	85,408
Ontario	43,439	6,430	5,217	3,188	58,274
Assumed from Maritimes	45	108	70	155	378
Total	$ 248,677	$ 227,910	$ 66,078	$ 50,110	$ 592,775

The concentration of insurance risk by line of business is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	December 31 2015 (unaudited)	December 31 2014 (audited)	December 31 2015 (unaudited)	December 31 2014 (audited)	December 31 2015 (unaudited)	December 31 2014 (audited)
Automobile	$ 221,889	$ 212,286	$ 14,230	$ 12,928	$ 207,659	$ 199,358
Personal property	111,530	122,079	11,360	28,683	100,170	93,396
Commercial property	28,667	31,730	5,944	8,098	22,723	23,632
Liability	58,260	54,683	2,745	3,404	55,515	51,279
Assumed	4,087	5,327	–	–	4,087	5,327
PFAD and discounting	23,172	20,115	1,944	2,372	21,228	17,743
Facility Association	5,682	5,364	–	–	5,682	5,364
Total	$ 453,287	$ 451,584	$ 36,223	$ 55,485	$ 417,064	$ 396,099

The concentration of insurance risk by region is summarized below by reference to unpaid claim liabilities:

	(thousands of $)					
	Gross		Reinsurance Recoverable		Net	
	December 31 2015 (unaudited)	December 31 2014 (audited)	December 31 2015 (unaudited)	December 31 2014 (audited)	December 31 2015 (unaudited)	December 31 2014 (audited)
Saskatchewan	$ 241,105	$ 258,575	$ 18,663	$ 39,966	$ 222,442	$ 218,609
Ontario	126,705	125,653	11,848	11,441	114,857	114,212
Alberta	75,152	59,284	5,565	3,519	69,587	55,765
Manitoba	8,517	6,343	147	559	8,370	5,784
British Columbia	52	–	–	–	52	–
Maritimes	1,756	1,729	–	–	1,756	1,729
Total	$ 453,287	$ 451,584	$ 36,223	$ 55,485	$ 417,064	$ 396,099

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers.

The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2015 (unaudited)	2014 (audited)
Dwelling and farm property	$ 1,000	$ 800
Unlicensed vehicles	1,000	800
Commercial property	1,000	1,250
Automobile and general liability	1,500	1,500

In addition, the Corporation carries property and auto physical damage catastrophe reinsurance limiting combined exposure to $12,500,000 per event (subject to an annual aggregate deductible of $6,250,000). In 2014, the Corporation carried similar coverage, although only covering property losses with no annual aggregate deductible.

While the Corporation utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Corporation evaluates and monitors financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

Actuarial risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the period end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the period end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

Financial risk

The nature of the Corporation's operations result in a Consolidated Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from customers, brokers and reinsurers) and certain investments.

The maximum credit risk to which the Corporation is exposed is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	December 31 2015 (unaudited)	December 31 2014 (audited)
Cash and cash equivalents	$ 3,178	$ 18,680
Accounts receivable	183,826	163,911
Fixed income investments [1]	679,890	610,369
Unpaid claims recoverable from reinsurers	36,223	55,485

[1] Includes short-term investments, bonds and debentures, and the mortgage pooled fund

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the annual consolidated financial statements.

Cash and cash equivalents include money market investments of $17,600,000 less bank overdraft, net of outstanding cheques of $14,422,000 (December 31, 2014 – money market investments of $32,358,000 less bank overdraft, net of outstanding cheques of $13,678,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts from brokers across the provinces that the Corporation operates in. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	December 31 2015 (unaudited)	December 31 2014 (audited)
Current	$ 182,990	$ 163,381
30 – 59 days	611	910
60 – 90 days	555	332
Greater than 90 days	8,814	6,538
Subtotal	192,970	171,161
Allowance for doubtful accounts	(9,144)	(7,250)
Total	$ 183,826	$ 163,911

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of $)	
	December 31 2015 (unaudited)	December 31 2014 (audited)
Allowance for doubtful accounts	$ 7,250	$ 5,722
Allowance related to discontinued operations	–	(48)
Accounts written off	(1,939)	(1,523)
Current period provision	3,833	3,099
Allowance for doubtful accounts	$ 9,144	$ 7,250

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Corporation of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	December 31, 2015 (unaudited)		December 31, 2014 (audited)	
Credit Rating	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**	**Fair Value (thousands of $)**	**Makeup of Portfolio (%)**
AAA	$ 122,330	27.9	$ 126,317	31.4
AA	121,622	27.7	122,821	30.5
A	135,069	30.7	96,025	23.8
BBB	60,046	13.7	57,743	14.3
Total	$ 439,067	100.0	$ 402,906	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	December 31 2015 (unaudited)	December 31 2014 (audited)	December 31 2015 (unaudited)	December 31 2014 (audited)
Net investment earnings	$ (11,980)	$ (11,915)	$ 11,980	$ 11,915
Net claims incurred	(10,268)	(9,549)	10,268	9,549
Income (loss) before income taxes	(1,712)	(2,366)	1,712	2,366

Foreign exchange risk

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in net income and retained earnings:

	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Asset Class	December 31 2015 (unaudited)	December 31 2015 (unaudited)	December 31 2015 (unaudited)
Global equities	16.0	12.7	$ 11,387
Global small cap equities	4.0	2.4	2,186

	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Asset Class	December 31 2014 (audited)	December 31 2014 (audited)	December 31 2014 (audited)
U.S. equities	14.0	10.0	$ 8,175
Non-North American equities	9.0	6.3	5,158

As global equity funds are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income. There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers. The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claim and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian and global markets. Equities comprise 22.8% (December 31, 2014 – 25.6%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)					
	December 31 2015 (unaudited)			December 31 2014 (audited)		
Asset Class						
Canadian equities	$	+/-	13,846	$	+/-	22,409
Global equities		+/-	24,597		+/-	–
Global small cap equities		+/-	4,897		+/-	–
U.S. equities		+/-	–		+/-	22,728
Non-North American equities		+/-	–		+/-	13,410

The Corporation's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Consolidated Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flow through cash generated from operations, as well as cash generated from investing activities.

8. Capital Management

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman Insurance Company, are subject to rate regulation related to their automobile premiums. Although not federally regulated, SGI CANADA has chosen to follow the guidance provided by the Office of the Superintendent of Financial Institutions (OSFI) in determining and monitoring capital targets.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Board of Directors has approved Capital Management policies for the Corporation, and each of its subsidiaries, prepared in accordance with Guideline A-4, *Regulatory Capital and Internal Capital Targets*, which OSFI issued in January 2014. The policies establish internal MCT targets, in excess of 150%, which are used by the regulators as minimum targets for supervisory purposes. The policies also establish operating MCT targets that provide for an operating cushion above the internal targets. The Corporation and its subsidiaries maintain MCTs in excess of their internal targets.

9. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	twelve months ended December 31	
	2015 (unaudited)	2014 (audited)
Accounts receivable	$ (19,915)	$ (14,539)
Unpaid claims recoverable from reinsurers	19,262	(24,308)
Reinsurers' share of unearned premiums	4,021	1,628
Deferred policy acquisition costs	(7,236)	(7,408)
Accounts payable and accrued liabilities	(4,988)	3,836
Premium taxes payable	2,380	2,407
Amounts due to reinsurers	(4,032)	(1,805)
Unearned reinsurance commissions	(1,840)	582
Unearned premiums	33,163	30,966
Accrued pension liability	(282)	(458)
Provision for unpaid claims	1,703	52,396
	$ 22,236	$ 43,297

10. Employee Salaries and Benefits

The Corporation incurs salary and retirement benefit costs associated with its defined benefit pension plan, defined contribution pension plan and its defined benefit service recognition plans and other benefit costs. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for employees of the Corporation who provide service to it based on a cost allocation framework. These amounts have been disclosed separately in this note.

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the net claims incurred and administrative expense lines on the Consolidated Statement of Operations.

Total salary and benefits expenses incurred during the period are as follows:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Salaries	$ 34,639	$ 34,414	$ 128,317	$ 127,348
Defined contribution pension plan	1,848	1,770	7,254	7,103
Defined benefit pension plan	22	39	105	157
Defined benefit service recognition plans	266	328	852	971
Other benefits	5,974	6,458	18,314	18,751
Total salaries and benefits	42,749	43,009	154,842	154,330
Less: Allocation to Saskatchewan Auto Fund	(24,598)	(25,235)	(96,730)	(93,987)
Salaries and benefits incurred in SGI CANADA	$ 18,151	$ 17,774	$ 58,112	$ 60,343

Defined contribution pension plan

The Corporation has employees who are members of the Public Employees Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to contributions made on behalf of employees for their current service.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2013. The next valuation is anticipated to have a valuation date of December 31, 2016.

The actuarial valuation is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

Pension expense for the defined benefit pension plan is as follows:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Current service cost	$ –	$ (7)	$ –	$ 8
Interest cost	22	46	105	149
Pension expense	$ 22	$ 39	$ 105	$ 157

Defined benefit service recognition plans

Pension expense for the defined benefit service recognition plan is as follows:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Current service cost	$ 53	$ 52	$ 214	$ 208
Interest cost	213	276	638	763
Pension expense	$ 266	$ 328	$ 852	$ 971

Actuarial (gains) losses recognized in other comprehensive income (loss)

Other comprehensive income (loss) results from changes to actuarial assumptions used to calculate the liabilities of the employee benefit plans and differences in the actual return on employee benefit plan assets versus estimated returns on these assets. The discount rate is the only key assumption that changed during the period, as follows:

Discount rate	Defined benefit pension plan	Defined benefit service recognition plans
December 31, 2013	4.30%	3.80% – 4.00%
December 31, 2014	3.70%	3.20% – 3.30%
December 31, 2015	3.60%	3.20% – 3.30%

Actuarial (gains) losses recognized in other comprehensive income (loss) are as follows:

	(thousands of $)	
	2015 (unaudited)	2014 (audited)
Cumulative actuarial losses, January 1	$ 5,219	$ 5,328
Loss recognized during the first quarter	728	661
Gain recognized during the second quarter	(784)	(226)
(Gain) Loss recognized during the third quarter	(70)	676
(Gain) Loss recognized during the fourth quarter	760	(1,220)
Cumulative actuarial losses, December 31	$ 5,853	$ 5,219

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include Board members, the President and Chief Executive Officer and Vice Presidents of the Corporation.

Key management personnel compensation is comprised of:

	(thousands of $)			
	three months ended December 31		twelve months ended December 31	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (audited)
Salaries and benefits	$ 324	$ 770	$ 3,409	$ 3,777
Post-employment benefits	9	10	40	40
Contributions to defined contribution plan	27	25	226	224
	$ 360	$ 805	$ 3,675	$ 4,041

11. Facility Association Participation

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)			
	Three months ended December 31		Twelve months ended December 31	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (audited)
Gross premiums written	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Net premiums earned	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Net claims incurred	[illegible]	[illegible]	[illegible]	[illegible]
Commissions	[illegible]	[illegible]	[illegible]	[illegible]
Premium taxes	[illegible]	[illegible]	[illegible]	[illegible]
Administrative expenses	[illegible]	[illegible]	[illegible]	[illegible]
Total claims and expenses	[illegible]	[illegible]	[illegible]	[illegible]
Underwriting loss	[illegible]	[illegible]	[illegible]	[illegible]
Net investment earnings	[illegible]	[illegible]	[illegible]	[illegible]
Net loss	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

12. Select Operating Information

The Corporation provides property and casualty insurance directly in Saskatchewan, and through its subsidiaries, SGI CANADA Insurance Services Ltd. operating in Alberta, Manitoba and British Columbia, and Coachman Insurance Company operating in Ontario. The performance of each subsidiary is reported separately to the Corporation's Board of Directors.

The product offerings vary across the jurisdictions, but all products offered are considered property and casualty insurance.

	(thousands of $)			
	Three months ended December 31, 2019 (unaudited)			
	SGI	SGI CL	Eliminations	Total
Net premiums written	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
Net premiums earned	[illegible]	[illegible]	[illegible]	[illegible]
Net claims incurred	[illegible]	[illegible]	[illegible]	[illegible]
Other expenses	[illegible]	[illegible]	[illegible]	[illegible]
Underwriting income (loss)	[illegible]	[illegible]	[illegible]	[illegible]
Net investment earnings	[illegible]	[illegible]	[illegible]	[illegible]
Income before income taxes	[illegible]	[illegible]	[illegible]	[illegible]
Income tax expense	[illegible]	[illegible]	[illegible]	[illegible]
Net income	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

	(Thousands of $)			
	Three months ended December 31, 2019 (unaudited)			
	2(3)	2(1)(2)	Eliminations	Total
Net premiums written	$ (119,129)	$ 28,998	$ (19,240)	$ (109,371)
Net premiums earned	99,235	23,289	15,096	138,110
Net claims incurred	67,364	12,388	11,487	76,850
Other expenses	35,254	4,709	8,113	52,077
Underwriting income (loss)	(3,383)	1,892	(5,504)	8,292
Net investment earnings	8,268	2,377	2,368	13,408
Income (loss) before income taxes	(5,791)	3,607	(33)	15,360
Income tax expense (recovery)	—	455	(1,23)	708
Net income	$ (5,791)	$ 3,774	$ 39	$ 15,652

	(Thousands of $)				
	Twelve months ended December 31, 2019 (unaudited)				
	2(3)	2(1)(2)	Eliminations	Consolidation Adjustments	Total
Net premiums written	$ 696,910	$ 115,384	$ 38,836	$ —	$ 931,340
Net premiums earned	679,607	107,291	21,813	—	808,711
Net claims incurred	236,317	74,980	31,377	—	342,286
Other expenses	198,898	56,916	14,368	—	270,182
Underwriting income (loss)	20,393	(3,463)	5,868	—	18,798
Net investment earnings	31,627	9,811	8,299	—	49,737
Income before income taxes	51,708	1,848	14,167	—	67,713
Income tax expense	—	594	2,377	—	2,971
Net income	$ 51,708	$ 1,254	$ 11,790	$ —	$ 64,752
Total assets	$ 1,100,398	$ 329,424	$ 299,214	$ (394,163)	$ 1,334,873
Total liabilities	$ 755,519	$ 180,508	$ 149,148	$ (325,473)	$ 759,702
Shareholder's Equity	$ 344,879	$ 148,916	$ 150,066	$ (68,690)	$ 574,171

Statements of Q						
Twelve months ended December 31, 2019 (audited)						
	CO	SHS	Fractions	Machine (Discontinued Note 5)	Consolidation Adjustments	Total
Net premiums written	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ -	$ [illegible]
Net premiums earned	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Net claims incurred	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Other expenses	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Underwriting income (loss)	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Net investment earnings	[illegible]	[illegible]	[illegible]	-		[illegible]
Other income	[illegible]	-	-	-	-	[illegible]
Income (loss) from continuing operations before the following	[illegible]	[illegible]	[illegible]			
Income tax expense	-	[illegible]	[illegible]	-	-	[illegible]
Discontinued operations (note 5)	-	-	-	[illegible]	-	[illegible]
Net income (loss)	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ [illegible]
Total assets	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ [illegible]	[illegible]
Total liabilities	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ [illegible]	$ [illegible]
Shareholder's equity	$ [illegible]	$ [illegible]	$ [illegible]	$ -	$ [illegible]	$ [illegible]

13. Contingencies

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that litigation will not have a significant effect on the financial position or results of operations.

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